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SUBJECT: AMBASSADOR VISITS TAVUSH AND LORI MARZES

SUMMARY

¶1. (SBU) Ambassador visited Tavush and Lori Marzes (northern Armenia) March 4 to meet with GOAM officials and several regionally-based private enterprises. Speaking on U.S. - Armenian relations, the Ambassador emphasized the commitment of the USG to help improve the lives of the Armenian people and support their efforts to live in peace and economic prosperity. On her visits to two private enterprises, Ambassador Yovanovitch highlighted the importance of such enterprises in generating local employment and their contribution to stimulating Armenia's economic growth. At an Advocacy and Assistance Center, one of eleven such centers being established throughout the country through USAID's anti-corruption program, the Ambassador observed efforts of local attorneys to provide legal counsel to citizens in addressing public-level corruption. The visit was an opportunity for the Ambassador to hear first-hand from those involved in efforts to improve life in the regions by challenging the status quo, even in the face of daunting challenges. End Summary.

ECONOMIC CONCERN IN DILIJAN

¶12. (SBU) Ambassador made a courtesy visit to the Mayor of Dilijan, a rustic, picturesque community of 17,000 that has fallen on hard times after once serving as a prime destination for tourists in the Soviet era. Mayor Armen Santrosyan thanked the Ambassador for the past and present support the USG has provided to the people of Dilijan. Asked to describe some of the challenges that Dilijan faced in meeting its development in the context of the world-wide financial crisis, Santrosyan stated that employment was a major concern. Unemployment was worsening due to the increasing numbers of returning migrants, mainly from Russia. He stated that out of a total city population of 17,000, the current number of employed was only about 3,000, with an additional 2,000-3,000 actively seeking employment. Santrosyan said he didn't know what the effects of the financial crisis would be, but believed there would be severe consequences for the local economy. Santrosyan mentioned the risk that Dilijan faced from landslides and outlined measures being taken by the Municipality to mitigate this risk. He also outlined serious issues with the Municipality's water supply and water quality, said that USAID's public-partnership with UNDP, Coca-Cola and the Municipality to install a wastewater treatment facility on the Aghstev River basin would greatly help to improve water quality in the city.

¶13. (SBU) Santrosyan noted that the GOAM has committed AMD 700,000,000 (USD 2 million) for investment in public works in Dilijan. These funds would be used for renovations of schools, parks/playgrounds, a museum, a library and cleaning of the Aghstev River basin, and would open employment opportunities for the local population. He also stated that the GOAM was committing AMD 120,000,000 (USD 330,000) for a condominium housing project, noting that this money would leverage an additional AMD 110,000,000 of (USD

305,000) funding through a public-private partnership. The Municipality is seeking investment of approximately AMD 160,000,000 to rehabilitate the city's cultural center that also houses the city's indigent elderly.

BUT HOPE IN PRIVATE SECTOR DEVELOPMENT

4.(SBU) Ambassador visited Dili, LLC., a regional, privately-owned medium-sized enterprise producing a variety of cheeses, milk cream, and Ricotta-type curds, and specializing in the production of Italian-style mozzarella. Through the USAID/EBRD Business Advisory Services Program (BAS), Dili receives consultancy services to assist the company in improving its marketing strategy and increasing its sales volume. Dili is also engaged in cattle breeding, and maintains a herd of German pedigree dairy cows that produce high quality raw milk which is used in the production of its line of dairy products.

5.(SBU) Ambassador toured the cattle sheds, milking station and dairy products processing facility, and sampled Dili's products. Asked about the major impediments that Dili and other enterprises in the region face in expanding their business, Sales Director Alexander Alexanyan replied that access to affordable finance to expand the business was the biggest constraint. He stated that interest rates were too high, making it difficult to service debt. Asked by the Ambassador whether the GOAM was supportive of SME development, Managing Director Astghik Tamrazyan responded that the GOAM's lifting of VAT on purchases of industrial equipment valued over USD 1 million was helpful (although not to Dili; it purchased its equipment before this VAT exemption came into effect). When

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asked whether the enterprise has felt the effects of the economic downturn in Armenia and what effect the recent devaluation of the AMD would have on its business, Alexanyan said he viewed the devaluation as an opportunity to expand Dili's operation, because it would make its products more competitive against imports.

SEEKING INVESTMENT IN VANADZOR

6.(SBU) The Ambassador also visited Vanadzor, Armenia's third largest city, and one of the hardest-hit communities in the 1988 earthquake. Vanadzor is home to a number of large, Soviet-era enterprises, including a massive chemical plant on the outskirts of the city. That plant operates at a fraction of capacity, while others are mostly idle. Vanadzor Mayor, Samvel Darbinian expressed his appreciation for U.S. support to the municipality and people of the city. Specifically, he mentioned the work of the Urban Institute in helping to establish housing units for the poor under the USAID Earthquake Zone Recovery project, and the work of the USAID Local Government Project in helping the municipality improve its public service delivery and financial management systems and the furnishing of two new garbage trucks (under a cost-share arrangement with the municipality).

7.(SBU) Responding to the Ambassador's question about the challenges facing Vanadzor, and about the effects of the world-wide financial crisis and recent devaluation on the local economy, Darbinian stated that a negative impact is inevitable, and that the GOAM is looking for ways to mitigate these negative impacts. He predicted that the next two to three years will be difficult ones for Armenia. He said there was a dire need for recovery of Vanadzor's SME industrial base, including the chemical, machine processing, textile and shoe manufacturing sectors, as well as revival of the tourism sector (winter sports facilities development, hotels and spas). The Ambassador asked if it is possible to attract private capital for investments in these areas. Darbinian commented that all the pre-conditions for investment in Vanadzor were in place, and that incentives would be provided to encourage such investment. He added that the banking sector should examine its policy on interest rates, noting that current high rates of interest on loans won't help the economy. Ambassador replied that the USG is interested in

supporting Armenia's economic development and private sector competitiveness. (Note: Later this month, Vanadzor Deputy Mayor Norik Sardaryan will participate in an International Visitor Leadership Program visit focused on Regional Economic Development. End Note).

8.(SBU) Asked about unemployment in Vanadzor, Darbinian replied that there was a need for 25,000 new jobs. He said that out of a population of 106,000, only 6,000-7000 people are employed (citing the fact that in a pre-independence population of 180,000, there had been 45,000 employed). Darbinian noted that the flow of remittances from Russia is slowing because of lack of employment opportunities for foreigners there. He stated that in the last several months remittance flows from the U.S. have also slowed. Darbinian argued that the GOAM should do something to control prices increases resulting from the March 3 devaluation of the AMD. To the Ambassador's question about how long he thought the economic downturn would last and how difficult it would be for Armenians, Darbinian replied that Armenia has been enjoying political and economic stability, and that the GOAM should take measures to ensure that the current economic crisis does not set the country back. He closed by saying that Armenia has faced difficult times in the past, and predicted it will overcome the current difficulties.

ARMENIANS SKIMP ON BREAD, MAKE THEIR OWN

9.(SBU) The Ambassador visited Grisar Ltd., a medium-size enterprise producing a variety of pasta products (macaroni, fettuccine, etc.) largely for local consumption. The company has installed modern production facilities (by Armenia's standards) and an automatic drying machine that both minimizes production labor and guarantees pasta quality. Grisar is the recipient of business consulting services through the USAID/BAS Program. The consultancy assisted Grisar to conduct marketing research, develop a company branding strategy, design promotional materials and identify potential merchandisers and supermarket chains for product distribution. The marketing and branding efforts have helped Grisar expand its clientele and increase sales volume, leading to an 18 percent increase in revenue in 2008.

¶10. (SBU) Factory Director Karo Kaplanyan led the Ambassador on a tour of the facility, which includes a flour mill, a warehouse where pasta products are inventoried, and the storehouse of wheat grain that was recently imported from Ukraine. Following the tour of the pasta production facility, the Ambassador was taken to a nearby

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bakery that Grisar also operates, where she observed bread baking operations. Asked about the effect of the current economic crisis in Armenia, particularly on employment, Kaplanyan stated that although sales of bread (and profits) were down 15 percent (people are buying their own flour and substituting home-made for store-bought bread), Grisar hasn't laid-off any staff. Kaplanyan said the company was retaining all its employees at the expense of lowered net profit. The Ambassador thanked Kaplanyan for his welcome and praised him for his entrepreneurship.

MEDIA QUESTIONS ON HUMAN RIGHTS REPORT

¶11. (SBU) The Ambassador also met with local media (print and TV) to address their questions about her impressions from Dilijan and Vanadzor. In her answers, Ambassador stressed that the USG continues to provide assistance to regional businesses as well as support to citizens to help them resolve corruption-related problems, including legal advice through the USAID Mobilizing Action Against Corruption (MAAC) program. Asked about the Human Rights Report recently issued by the State Department, the Ambassador replied that she stood fully by the findings and conclusions of the report. Asked if the Millennium Challenge Corporation (MCC) will suspend its programs in Armenia as a result of the problems outlined in the report, the Ambassador said this question will be addressed by the MCC board later this month.

LAWYERS WORKING ON CORRUPTION COMPLAINTS

¶12. (SBU) The Ambassador was also welcomed at the Helsinki Citizens Assembly office in Vanadzor, where the USAID "Mobilizing Action Against Corruption" (MAAC) project has established an Advocacy and Assistance Center (AAC). The center provides support to citizens to help them resolve corruption-related problems, including legal advice and assistance in legal processing of complaints. The AAC provides citizens with a channel for reporting public-level corruption and directing these complaints back to government. The Ambassador highlighted the importance of the work of the center in creating greater awareness among the general public about corruption and its negative effects, and in decreasing the public's and business owners' tolerance of corruption. Center staff -- primarily lawyers -- discussed their activities to date, highlighting some of the cases they have undertaken and the results of their interventions to combat corruption. The Ambassador encouraged Center staff to continue their work to raise public awareness and discourage public tolerance towards corrupt practices. She also stressed the need to show tangible results in these cases in order to advance the fight against corruption.

¶13. (U) USAID/E&E Desk Officer Lori Rakoczy has cleared this cable.

YOVANOVITCH